

Background

The purpose of this report is to recommend a policy change removing the rebate of property tax for vacant commercial and industrial properties as well as the elimination of discount rates for the commercial and industrial subclasses. New provincial legislation provides municipal discretion in maintaining, amending or eliminating discount rates for commercial/industrial subclasses and vacant unit rebates. City Council was apprised of these options on May 30, 2017 during the presentation on 2017 property tax policy.

The rationale for the Province's legislative change reflects its desire to provide municipalities with greater control over property taxation matters.

For the vacancy rebate program, quite often there is a double benefit received by the property owner as vacant units receive a lower assessment than occupied units and they also receive the vacancy rebate. Currently the vacancy rebate is 30% for commercial property and 35% for industrial properties.

The principle of discounted subclasses originated with the elimination of the business occupancy tax in 1998 that was part of the Province's assessment/taxation reforms. As was the case with the vacancy rebate, long term vacant units, excess land and vacant land properties receive a lower Current Value Assessment applied by MPAC and would also receive a discounted rate.

The vacancy rebate and the discounted subclasses are viewed as extending a benefit to commercial and industrial properties not available to residential property owners.

The Province has indicated that municipal changes to commercial/industrial reduction and vacancy programs will follow a set protocol:

1. Municipalities are expected to engage the business community in a public consultation process in order to inform business stakeholders of the optional changes as well as to receive feedback on the programs.
2. Municipalities that opt to initiate changes must pass a council resolution and inform the Minister of Finance of the requested changes.

If approved, the Ministry of Finance will file a regulation to that effect.

Analysis

Commercial/Industrial Subclasses

Section 7 of the Assessment Act describes the various tax classes for the purpose of property taxation. Commercial and industrial tax classes have subclasses noted as vacant units / excess land and vacant land. These subclasses acknowledge unused or vacant property and are discounted for the purpose of municipal property taxation. For 2017, the commercial and industrial subclasses discounted rates accounted for \$3.0 million in municipal tax revenue. If the discounted subclasses were eliminated and

taxed at the full rate, the municipal revenue would have been \$4.5 million, a difference of \$1.5 million.

Vacant Unit Rebates

Section 364 of the Municipal Act provides for tax rebates for commercial and industrial properties when such properties are vacant due to a loss in tenancy. The principle behind this rebate is to acknowledge the reduction in tax revenue generated by the former business occupancy tax mentioned earlier.

The City of Greater Sudbury receives approximately 200 applications for property tax relief on an annual basis and involves liaison with the Municipal Property Assessment Corporation, internal administration and often site visits by Finance staff. Elimination of the vacant unit rebate program would result in an annual saving of approximately \$600,000 in expenditures.

Public Consultation

Through September and October staff held four meetings with various stakeholders including representatives of the Business Improvement Areas, property management personnel and real estate professionals regarding the optional changes to commercial/industrial subclasses and vacant unit rebates as required by legislation.

The purpose of these meetings was to describe the potential for a change in tax policy and discuss the implications. Verbal and written comments that evolved from the public consultations are summarized below. It is important to note that while the stakeholder comments are presented here, this should not be viewed as a statement of support/agreement by staff:

- Community malls are facing financial challenges province wide.
- Property owners need a rebate to offset building costs such as utilities associated with their property.
- The commercial/industrial vacancy rebate program should be phased out versus immediate elimination.
- The vacancy rebate program's elimination should begin in the industrial tax class.
- Additional revenues generated by the program's elimination should be funneled back into the local business community.
- Property owners taking advantage of the rebate program should be penalized versus those actively trying to maintain full occupancy.
- Elimination of the program may improve some areas and alleviate "dead zones".
- Elimination of the rebate program may encourage property owners to be more aggressive in a leasing strategy.
- Some property owners have incentives to remain successful in keeping buildings occupied.

- Commercial/industrial rebates represent a revenue loss to Business Improvement Area.
- Elimination of the subclasses may stagnate development and hurt the ability to invest in such properties.

Other Municipalities

A survey of peer municipalities, Ontario Regional & Single Tier Treasurers Group, indicates that a number of municipalities are either eliminating the program by 2018 or phasing the program out shortly after. A number of common themes are evident from our analysis.

- Vacant properties have a negative impact on surrounding properties
- The existing program represents a substantial tax revenue loss to the municipality
- The current program provides a disincentive to develop vacant property
- Vacancy is already factored into a lower current value assessment

Conclusions

Based on comments received from stakeholders and municipal peers, staff conclude:

- Most commercial property owners or their agents are not in favour of the elimination of the vacancy rebate program but if changes are made to the program, a gradual phase out would be preferred.
- Property owners or their agents were opposed to the elimination of the commercial / industrial subclasses to a lesser extent.
- Commercial/industrial vacancies are already reflected in current value assessments, thereby providing a further discount on property taxes.
- Vacant properties have a negative impact on neighbourhoods as mentioned by a developer during the September 25, 2017 Planning Committee Meeting.
- Discounts may result in a disincentive to develop vacant property as mentioned by a representative of a major mall.
- Lost property tax revenue must be made up by other properties in all tax classes.
- Site visits to large industrial properties require logistical arrangements, security clearance and often involve remote areas.
- Commercial/industrial vacancy rebates represent a revenue loss for the Business Improvement Area associations.
- The vacancy rebate program involves interaction between property owners, the Municipal Property Assessment Corporation and municipal staff and the process is administratively burdensome.
- The elimination of rebate programs may encourage more participation in the incentives offered in municipal Community Improvement Programs.

Recommendation

For 2017, the commercial/industrial reduction program remains in place, however, Finance staff recommend the following program changes.

Commercial/Industrial Subclasses

For 2018 and future years Finance staff recommends that the commercial and industrial subclasses be eliminated and such properties to be taxed at the full tax rates as established during annual tax policy deliberations and pursuant to area rating.

Vacant Unit Rebates

Finance staff recommends that the existing commercial and industrial vacant unit tax rebate program be phased out over time as per the chart below. As well, staff recommends the immediate removal from eligibility those buildings with restricted public access and not available for lease.

	2018 Rebate (%)	2019 Rebate (%)	2020 Rebate (%)
Commercial	20%	10%	0%
Industrial	23%	12%	0%
Large Industrial	0%	0%	0%

This phase out strategy mirrors that of a majority of our peer municipalities and represents a compromise after reviewing the comments from the business community.

Conclusion

Should City Council accept the recommendation of Finance staff, implementation will commence with the submission of a Council resolution to the Minister of Finance along with a notification of the requested changes. Once the Minister files the regulation, the City can proceed with billing the commercial and industrial subclasses at the full tax rates. As well, the City can proceed with the phase out of the commercial and industrial vacancy rebates.